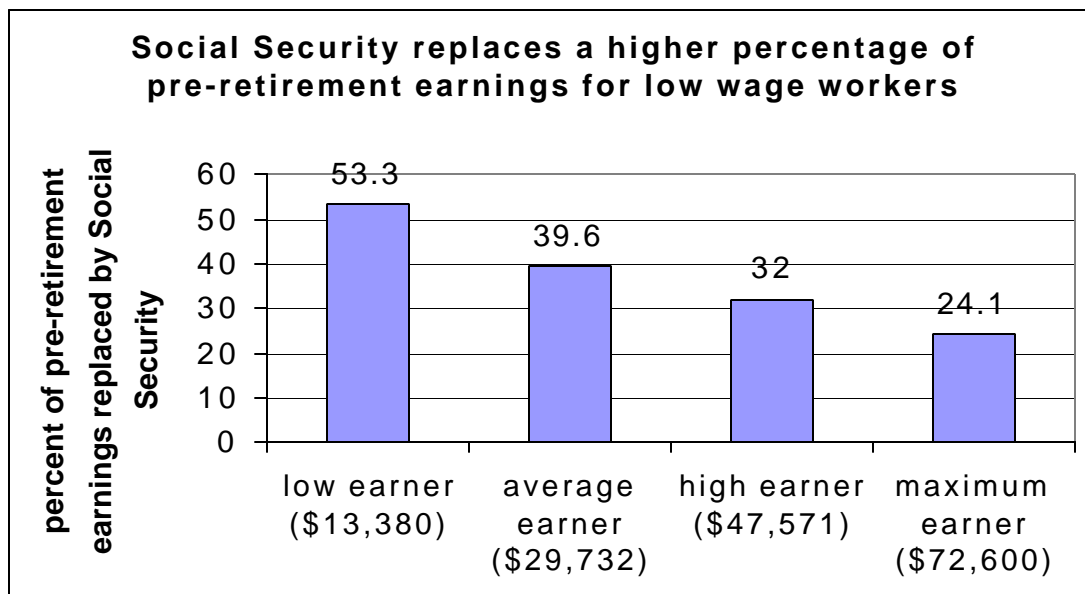


How Does Social Security Benefit Low Wage Workers?

- Social Security's progressive benefit formula replaces a higher percentage of pre-retirement earnings for low wage workers.
- Social Security's cost of living adjustment (COLA) protects the value of benefits for all workers but is especially important for low wage workers who often lack other sources of income.
- Social Security's survivor, spousal and disability benefits help all families but are critical for low wage workers who experience higher mortality and disability rates.
- These features of Social Security have helped to reduce poverty among the aged by two-thirds since 1959.

Social Security's progressive benefit formula replaces a higher percentage of pre-retirement earnings for low wage workers

Social Security benefits are based on lifetime earnings¹ and a progressive benefit formula. This progressive benefit formula replaces a higher percentage of pre-retirement earnings for low wage workers compared to other wage groups. (see chart below.)

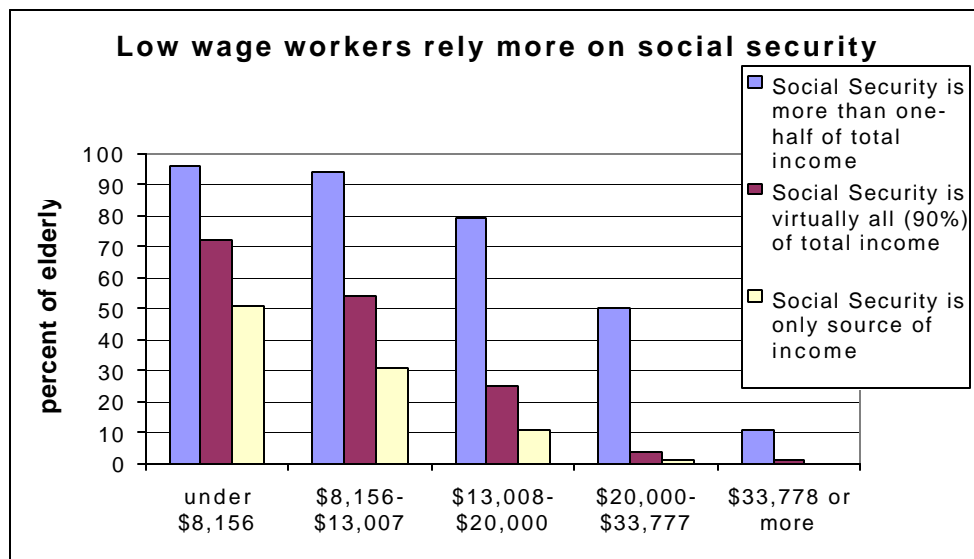


Source: 1999 Trustees Report, Table III. B5, and Social Security Administration (SSA) Office of Research, Evaluation and Statistics, *Fast Facts and Figures about Social Security*, 1999, p. 1. Based on 1999 earnings (estimated).

Social Security's cost of living adjustment (COLA) helps protect the value of benefits for low wage workers who often lack other sources of income

Social Security benefits are adjusted annually to changes in the consumer price index (CPI). In 2000 the COLA is 2.4 percent, up from 1.3 percent in 1999. The COLA helps protect the value of benefits from the effects of inflation and also helps maintain a base of income security for retirees in later years as the value of other sources of income, particularly savings, diminish with age.

The COLA and the progressive benefit formula are especially critical for low wage workers who are more likely to rely on Social Security benefits for nearly all of their income during retirement compared to other wage groups. (see chart below.) For 95 percent of beneficiaries in the lowest income quintile (under \$8,156), Social Security accounted for more than half of their total income, and for about 70 percent of this group, Social Security represented virtually all of their income.



Source: Social Security Administration, Office of Research, Evaluation, and Statistics, *Income of the Aged Population 55 or Older, 1996*, Publication No. 13-11871, April 1998. Table VI.B.5 p. 115.

Low wage workers are apt to rely heavily on Social Security in retirement because they generally don't have disposable income to save and often lack adequate pension coverage during their working years.

For example:

- ❑ In 1993 only 15 percent of workers with earnings of \$15,000 and under were offered 401(k) coverage and only 39 percent of those participated.
- ❑ Workers earning \$40,000 or more, however, had an offer rate of 65 percent and 84 percent participated.²

Furthermore, the elderly poor who do receive pensions often don't receive very much. In 1996, the average (median) benefit receipt from private employer-sponsored pensions for those in the lowest income quintile was only \$123 a month compared to average benefits of almost \$981 per month for the highest income quintile. Moreover, pension beneficiaries in the lowest income quintile were only 3 percent of private pension recipients in 1996 (207,000 persons). Private pension beneficiaries in the highest income quintile were 29 percent of recipients (2.1 million).³

Low wage workers, who tend to experience higher mortality and disability, are protected by Social Security's survivor, spousal, and disability benefits

Social Security is more than a retirement program. In 1998, 38 percent of beneficiaries were non-retirees. Disabled workers accounted for 11 percent of beneficiaries, 16 percent were survivors of deceased workers, and another 11 percent were spouses and children of disabled and retired workers.⁴

These additional family benefits are available for all workers but are vital for low wage workers because they generally experience higher mortality rates.⁵ Consequently, the families of low wage earners benefit from survivor benefits that are available to:

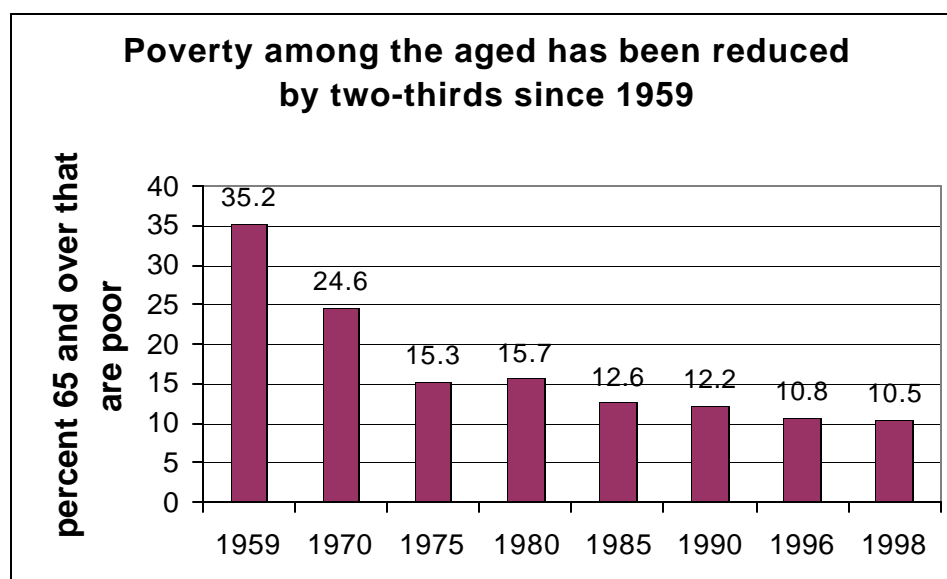
- ❑ children 18 years of age and younger,
- ❑ the surviving spouse until the child reaches age 16,
- ❑ the surviving spouse at age 60.

Disability incidence also tends to be higher among low wage workers,⁶ so these benefits provide a much-needed source of family income in the event an insured person is no longer able to work due to health reasons. The disability determination process considers education level when assessing benefit eligibility so that those with less formal education (mostly low wage workers) are more likely to qualify for benefits. Like survivor benefits, disability benefits are payable to an insured worker and his or her family.

Low wage workers and those with intermittent work histories are also likely to benefit from the spousal benefit provisions of Social Security. If a worker's benefit on his or her own record is less than half of the spouse, they can qualify for their own as well as a portion of their spouse's benefits. This is known as dual entitlement. Uninsured spouses with little or no work history can qualify for one-half of the working spouse's benefits.

Social Security has helped to reduce elderly poverty by two-thirds

These features of Social Security have helped to reduce poverty among the aged by two-thirds since 1959.⁷ The percent of those aged 65 and over who are poor has declined from 35.2 percent in 1959 to 10.5 percent in 1998. (see chart below.) Without Social Security, about 50 percent of the 65-and-over population would have been in poverty in 1996.⁸



Source: SSA, Office of Research, Evaluation, and Statistics. *Annual Statistical Supplement to the Social Security Bulletin, 1998*. Table 3.E2 and U.S. Bureau of the Census, *Annual Report on Income and Poverty in America* for 1998.

¹ Only the thirty-five highest earning years are considered in the benefit calculation. This results in “zero-earning” years for workers with less than 35 work years and excludes years for those who have worked more than 35 years.

² Department of Labor, Social Security Administration (SSA), U.S. Small Business Administration, and the Pension Benefit Guarantee Corporation. *Pension and Health Benefits of American Workers: New Findings from the April 1993 Current Population Survey*. 1994, pp. C-12. Based on plans offered by private employers.

³ SSA, Office of Research, Evaluation, and Statistics. *Income of the Population 55 or Older, 1996*. SSA Publication No. 13-11871, April 1998. Table V.C.2, p. 78.

⁴ SSA, Office of Research, Evaluation and Statistics. *Fast Facts and Figures about Social Security 1999*, p. 14. Figures are for December 1998.

⁵ A number of researchers have documented this association. Please see Eugene Rogot, Paul D. Sorlie and Norman Johnson, “Life Expectancy by Employment Status, Income, and Education in the National Longitudinal Mortality Study” Public Health Reports, Vol 107, July 1992.

⁶ Harriet Orcut Duleep, “Measuring the Effect of Income on Adult Mortality Using Longitudinal Administrative Record Data.” *Journal of Human Resources*, Vol. 21, No. 2 (Spring) pp. 238-251, and Burtless, Gary. 1987. “Occupational Effects on the Health and Work Capacity of Older Men” in *Work, Health, and Income Among the Elderly*, Gary Burtless (ed). Washington, DC: The Brookings Institution, pp. 103-142.

⁷ It is likely that the growth of employer-sponsored pensions and health benefits, Medicare (which is considered a part of Social Security), as well as other economic factors have also contributed to lower rates of poverty among the aged.

⁸ SSA, *Fast Facts and Figures about Social Security, 1999*, p. 8. Forty-one percent of beneficiaries were kept out of poverty because of Social Security, while 9 percent were in poverty with Social Security. (This poverty figure for 1996 is different from that in the chart because it reflects family income instead of aged person income, and it reflects only Social Security beneficiaries 65 and older, not the aged population at large which may contain uninsured persons and families.).